Ebbs and flows

New Zealand’s manufacturing sector experienced slower expansion levels in November, according to the latest BNZ - BusinessNZ Performance of Manufacturing Index (PMI).

The seasonally adjusted PMI for November was 51.4 (a PMI reading above 50.0 indicates that manufacturing is generally expanding; below 50.0 that it is declining). While this was the second consecutive month in expansion, it was 1.2 points lower than October’s value.

BusinessNZ’s executive director for manufacturing Catherine Beard said that the November result was somewhat of a mixed bag.

“The sub-index of new orders (54.5) continued to lead the charge in terms of displaying the highest level of expansion. However, production (49.6) fell back into slight contraction, as did employment (49.2). Finished stocks (48.6) remained in a fairly tight band of contraction, while deliveries of raw materials (52.8) continued to improve from the previous month.

“The fact that new orders remains relatively healthy should provide further impetus for the sector in the coming months. However, a sustained level of activity above the long term average for new orders would help get the sector as a whole back on track.

Despite the dip in expansion, the proportion of positive comments for November (65.3%) was higher than October (57.6%) and September (48.8%). Seasonal factors such as Xmas was a common theme in comments, as well as more offshore demand.

BNZ Senior Economist, Doug Steel said that “If October’s big lift in the PMI suggested the worst of NZ’s economic slowdown was behind us, November’s consolidation suggests any acceleration is not going to be in a straight line”.
Another positive perspective is that NZ’s PMI is clearly above equivalents in other countries. Overall global manufacturing indicators have just crept back into positive territory but are still struggling well below trend as trade and economic uncertainty hinders investment.

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Production OK in Q3?

Official manufacturing sales and inventory data for Q3 was released on Monday and inferred a surprisingly solid output gain. While sales volumes fell 0.3%, there was a build-up in inventory indicating production was actually pretty good.

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Manufacturing Snapshot

Glass Half Empty?

The focus ahead of the November issue of the Performance of Manufacturing Index (PMI) was to see how it fared after its big jump in October. Did it hold the gains or push even higher? Or did it unwind the previous move and fall back into contractionary territory?
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Glass Half Full?

But November’s PMI had some features to like as well, at least relative to recent history. The glass-half-full perspective sees the manufacturing sector posting its second consecutive month of expansion (index above 50).
Read more →

Relatively Good

Another positive perspective is that NZ’s PMI is clearly above equivalents in other countries. Overall global manufacturing indicators have just crept back into positive territory but are still struggling well below trend as trade and economic uncertainty hinders investment.
Read more →
### BNZ - BusinessNZ PMI Time Series Table

Results are seasonally adjusted

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<tbody>
<tr>
<td>BNZ - BusinessNZ PMI</td>
<td>53.2</td>
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<td>48.6</td>
<td>48.8</td>
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<td>49.6</td>
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<td>55.8</td>
<td>49.2</td>
<td>45.1</td>
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<td>54.5</td>
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<tr>
<td>Deliveries</td>
<td>52.7</td>
<td>49.1</td>
<td>48.5</td>
<td>47.5</td>
<td>51.3</td>
<td>52.8</td>
</tr>
</tbody>
</table>

View PMI Time Series Data
International Results
J.P. Morgan Global Manufacturing PMI™
2 December 2019

50.3

USA 52.6
UK 48.9
Japan 48.9
Europes 46.9
China 51.8
Australia 48.1
NZ 51.4

Sponsor Statement
BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ.

The association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ.

We look forward to continuing our association with BusinessNZ and associated regional organisations, and to playing our part in the ongoing development of the New Zealand manufacturing sector.

Media Comment
For media comment, contact:

Catherine Beard:
04 496 6560

Doug Steel:
04 474 6923

Technical Comment
Stephen Summers:
04 496 6564
ssummers@businessnz.org.nz
Glass Half Empty?
The focus ahead of the November issue of the Performance of Manufacturing Index (PMI) was to see how it fared after its big jump in October. Did it hold the gains or push even higher? Or did it unwind the previous move and fall back into contractionary territory? As it turns out, the answer is somewhere in the middle. November’s PMI came in at 51.4. The glass-half-empty perspective sees the PMI retreating from October’s 52.6 and an unwinding of about a third of that month’s strong gain. The pessimists would also note the index sits a bit under its long term average of 53.3 and details show declines in production and employment (albeit small ones).

Glass Half Full?
But November’s PMI had some features to like as well, at least relative to recent history. The glass-half-full perspective sees the manufacturing sector posting its second consecutive month of expansion (index above 50). That is significantly better than the contraction indicated by the index from July through September. Among the details the optimists would point to solid deliveries and decent new orders. Even though the latter eased a bit to 54.5 from October’s 55.6, new orders remain in touch with their long term average of 55.1. New orders are also elevated relative to inventory (which manufacturers have been managing down recently). The difference between new orders and inventory bodes well for production.

Relatively Good
Another positive perspective is that NZ’s PMI is clearly above equivalents in other countries. Overall global manufacturing indicators have just crept back into positive territory but are still struggling well below trend as trade and economic uncertainty hinders investment. NZ has faced some backwash from this. But NZ’s PMI has lifted back above global norms over recent months after a period below, suggesting a relative improvement in domestic demand. Overall, our take is that NZ manufacturing is still running a bit below average, but caution is mixing with some hints of improvement. If October’s big lift in the PMI suggested the worst of NZ’s economic slowdown was behind us, November’s consolidation suggests any acceleration is not going to be in a straight line.

Production OK in Q3?
Official manufacturing sales and inventory data for Q3 was released on Monday and inferred a surprisingly solid output gain. While sales volumes fell 0.3%, there was a build-up in inventory indicating production was actually pretty good. Next week’s GDP figures will reveal if this was the case. Following Monday’s data we lifted our estimate for overall Q3 GDP to 0.5%, from 0.3%. Looking at Q4, the PMI suggests we shouldn’t expect much from manufacturing production. But decent new orders offers more hope for sales and output further ahead.

doug_steel@bnz.co.nz
Contact Details

BNZ Research

Stephen Toplis  
Head of Research  
+64 4 474 6905

Craig Ebert  
Senior Economist  
+64 4 474 6799

Doug Steel  
Senior Economist  
+64 4 474 6923

Jason Wong  
Senior Markets Strategist  
+64 4 924 7652

Nick Smyth  
Interest Rates Strategist  
+64 4 924 7653

Main Offices

Wellington
Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

Auckland
80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

Christchurch
111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

National Australia Bank

Ivan Colhoun  
Global Head of Research  
+61 2 9237 1836

Alan Oster  
Group Chief Economist  
+61 3 8634 2927

Ray Attrill  
Head of FX Strategy  
+61 2 9237 1848

Skye Masters  
Head of Fixed Income Research  
+61 2 9295 1196

Wellington
Foreign Exchange  
+800 642 222  
Fixed Income/Derivatives  
+800 283 269

Sydney
Foreign Exchange  
+61 2 9295 1100  
Fixed Income/Derivatives  
+61 2 9295 1166

London
Foreign Exchange  
+44 20 7796 3091  
Fixed Income/Derivatives  
+44 20 7796 4761

New York
Foreign Exchange  
+1 212 916 9631  
Fixed Income/Derivatives  
+1 212 916 9677

Hong Kong
Foreign Exchange  
+85 2 2526 5891  
Fixed Income/Derivatives  
+85 2 2526 5891

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